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**ORIGINAL**

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2008 JUN 25 P 1:40

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RICHARD L. SALLQUIST

June 25, 2008

Arizona Corporation Commission  
**DOCKETED**

JUN 25 2008

**HAND DELIVERY**

Mr. Elijah Abinab  
Arizona Corporation Commission  
Utilities Division  
1200 W. Washington  
Phoenix, AZ 85007

DOCKETED BY	<i>MR</i>
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Re: H2O Inc. Docket No. W-02234A-07-0557 Letter of Deficiency Response

Dear Mr. Abinab:

Enclosed please find the Company's response to your Letter of Deficiency dated June 11, 2008.

**BCA 1** - There is a discrepancy between the allowance for working capital in schedules B-5 and B-1.

Response By: Thomas J. Bourassa, CPA

The Company is not requesting a working capital allowance as indicated on the B-5 schedule. According, no working capital is shown on the B-1 schedule. Please also see the Direct Testimony of Thomas J. Bourassa at page 5.

**BCA 2** - Copies of Mr. Bourassa's original cost of capital direct testimony are not identical to the original on pages 7 through 23.

Response by: Thomas J. Bourassa, CPA

The Company filed only one Cost of Capital Testimony in this proceeding. We are unaware of any other document to which Staff may be comparing the Company's Exhibit D to the May 13, 2008 Amended Application.

**BCA 3** - Schedule H-1, page 3, of the application shows a tolerance percentage of 0.50 percent for the difference between the revenue per bill count and the revenue per general ledger. Reference to a tolerance level is misleading as the commission has not sanctioned any allowed difference. The tolerance reference should either be removed or clearly

marked as an opinion of the Company.

Response by: Thomas J. Bourassa, CPA

Mr. Bourassa has been practicing before the Commission for many years and has either shown or provided Staff with a revenue reconciliation using a tolerance level of ½ of one percent of revenues in the rate application schedules he has prepared. When Mr. Bourassa has left out the revenue reconciliation, Staff typically requests one, or has questions about the bill count. In Mr. Bourassa's experience, the tolerance employed in the Company's application has been the accepted level of difference between the bill count revenues and the amounts recorded in the utility's general ledger used by the Commission Staff in the past. While Mr. Bourassa accepts that Staff may change this unwritten 'policy' at its discretion, he has not been made aware of such a change. Putting this aside, the rate application is filed by the Company and represents the Company's filing and its proposals and not those of Staff, the Commission, or any other party for that matter. No where in the application does the Company indicate Commission approved amounts other than where specifically indicated. For example, the starting balances for plant-in-service and accumulated depreciation (Schedule B-2, page 2.1) and contributions-in-aid of construction (Schedule B-2, page 3). Based on the above, the Company does not believe a revision to its filing is necessary or required.

**BCA 4** - The following service charge rates on schedule H-3 do not agree with the filed tariff schedule as shown:

<u>Per H-3</u>	<u>Per Tariff</u>
NSF Check \$25	NSF Check \$15
Late Charge Per Month 1.5%	Late Charge Per Month N/A

Response by: Thomas J. Bourassa, CPA

Please see the revised H-3, page 3. Please note that Footnote (e) has also been modified to more fully explain the requested CAP Surcharge.

**KS 5** - With reference to an inventory of the major plant in service during the test year, the submitted Attachment 3 does not agree with Plant Description specified in the ADEQ Inspection Report of June 28, 2006 (Attachment 2) and the Company's Source and Storage Capacities Data Sheet filed on January 31, 2008 in Docket # 07-0371. Please correct and reconcile.

Response by: H2O, Inc.

The Company believes that the information requested is a discovery request and not a sufficiency item. Putting this aside, ADEQ's information base has not been updated and the Company is waiting on ADEQ to provide the updated information. Accordingly, the Company cannot adequately respond to the request at this time. The Company will

respond to the request when the ADEQ information has been updated and received by the Company.

**KS 6** - With reference to the submitted Attachment 6, please state if the Town of Queen Creek will assume Queen Creek Water Company's obligations listed in the Addendum to Water Supply Agreement dated December 27, 2007 (Attachment 6).

Response by: H2O, Inc.

The Company believes that the information requested is a discovery request and not a sufficiency item. However, the response to the question is "Yes".

**KS 7** - In order for Staff to estimate annual water testing cost, please provide the following:

- a) List of all tests required by ADEQ for Distribution System Monitoring (per system: 1 1-060 & 07-904)
- b) List of all tests required by ADEQ for Ground Water Monitoring (for each POE)
- c) Number of POEs
- d) Monitoring cycle (monthly, quarterly, annually, per three- year, etc.)
- e) Number of tests per monitoring cycle
- f) Cost per test

Response by: H2O, Inc.

The Company believes that the information requested is a discovery request and not a sufficiency item. Putting this aside, ADEQ's information base has not been updated and the Company is waiting on ADEQ to provide the updated information. Accordingly, the Company cannot adequately respond to the request at this time. The Company will respond to the request when the ADEQ information has been updated and received by the Company.

**KS 8** - The Company's proposed depreciation rate table, listed in Exhibit Schedule C-2, page 2, deviates from the Staffs typical depreciation rate table shown below.

- a) The Company's table does not include the following plant accounts specified in the Staffs table: #320.1, #320.2, #330.1, #330.2, and #340.1. Please correct and reconcile.
- b) Account #348 "Other Tangible Plant: Please list specific capital plant items used in this account.

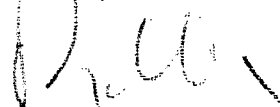
[TABLE IN ORIGINAL INTENTIONALLY NOT REPRODUCED HERE]

Response by: Thomas J. Bourassa, CPA

- a) The Company has not classified its plant-in-service in to the sub-accounts listed and believes it is not required to do so. The schedule reflects the Company's proposals. If Staff wishes to propose a reclassification of the Company's plant-in-service based on its review of the Company's fixed asset records, it may do so at its discretion.
- b) Account #348 consists of primarily of computer equipment, software and related peripherals. The schedule reflects the Company's proposals. If Staff wishes to propose a reclassification of the Company's plant-in-service based on its review of the Company's fixed asset records, it may do so at its discretion.

In the event you have any questions regarding these matters, please do not hesitate to contact the undersigned.

Sincerely,



Richard L. Sailquist  
For the Firm

Enclosures

cc: Docket Control (15 copies)  
Don Schnepf  
Tom Bourassa

**H2O, Inc.**  
Changes in Representative Rate Schedules  
Test Year Ended December 31, 2006

Exhibit  
Schedule H-3  
Page 3  
Witness: Bourassa  
2nd Revised

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	\$ 15.00	\$ 15.00
2	Establishment (After Hours)	\$ 25.00	\$ 25.00
3	Reconnection (Deliquent)	\$ 15.00	\$ 15.00
4	Reconnection (Deliquent and After Hours)	N/A	\$ 15.00
5	Meter Test	\$ 25.00	\$ 25.00
6	Deposit Requirement (Residential)	(a)	(a)
7	Deposit Requirement (None Residential Meter)	(a)	(a)
8	Deposit Interest	(b)	(b)
9	Re-Establishment (With-in 12 Months)	(c)	(c)
10	Re-Establishment (After Hours)	(c)	(c)
11	NSF Check	\$ 15.00	\$ 15.00
12	Deferred Payment, Per Month	1.00%	1.50%
13	Meter Re-Read	\$ 10.00	\$ 10.00
14	Charge of Moving Customer Meter -		
15	Customer Requested per Rule R14-2-405B	Cost	Cost
16	After hours service charge, per Rule R14-2-403D	Refer to	Refer to
17		Above	Above
18		Charges	Charges
19	Late Charge per month	N/A	1.5%
20	Off-site Facilities Hook-up Fee (See H-3, page 5)	(d)	(d)
21	CAP Purchased Water Surcharge	N/A	(e)
22	Company Locks Damaged by Customer	(f)	(f)
23	Mains Damaged by Customer	(f)	(f)
24			
25	(a) <u>Residential</u> - two times the average bill. <u>Non-residential</u> - two and one-half times the average bill.		
26	(b) Interest per Rule R14-2-403(B).		
27	(c) Minimum charge times number of full months off the system. per Rule R14-2-403(D).		
28	(d) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-		
29	division. Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide		
30	water production, delivery, storage, and presssure among all new service connections.		
31	(e) The CAP surcharge is in addition to all other commodity charges and will be adjusted annually to recover		
32	the acquisition and purchased water costs of the Company associated with the right to receive 147 acre		
33	feet of Central Arizona Project water each year for delivery to customers. The surcharge will include a 10 year		
34	amortization of the acquisition cost plus the projected annual fixed costs of the contract and the delivery costs.		
35	Surcharge will be computed annually based on gallons sold and trued-up at the end of each year with any		
36	over or under recovery of actual costs during the year included in the next years surcharge computation.		
37			
38	(f) Per Commission Rule R14-2-407(B).		
39			
40			
41	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
42	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
43	TAX. PER COMMISSION RULE 14-2-409D(5).		
44			
45	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
46	AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.		
47			
48			
49			